

KAMAN CORP
Form 10-Q
November 05, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the quarterly period ended October 2, 2009

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____

Commission File Number: 0-1093

KAMAN CORPORATION

(Exact name of registrant as specified in its charter)

Connecticut

06-0613548

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification No.)

1332 Blue Hills Avenue
Bloomfield, Connecticut 06002

(Address of principal executive offices) (Zip Code)

(860) 243-7100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At October 30, 2009, there were 25,750,386 shares of Common Stock outstanding.

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

KAMAN CORPORATION AND SUBSIDIARIES

(In thousands, except share and per share amounts) (Unaudited)

Assets	October 2, 2009	December 31, 2008
Current assets:		
Cash and cash equivalents	\$ 16,620	\$ 8,161
Accounts receivable, net	145,146	173,847
Inventories	280,070	255,817
Deferred income taxes	20,648	23,851
Income taxes receivable	936	3,450
Other current assets	20,931	21,390
Total current assets	484,351	486,516
Property, plant and equipment, net	79,884	79,476
Goodwill	87,501	83,594
Other intangibles assets, net	28,759	28,211
Deferred income taxes	71,143	71,926
Other assets	21,517	12,890
Total assets	\$ 773,155	\$ 762,613
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	\$ 1,669	\$ 1,241
Current portion of long-term debt	5,000	5,000
Accounts payable – trade	72,597	84,059
Accrued salaries and wages	20,952	21,104
Accrued pension costs	1,107	5,878
Accrued contract losses	1,044	9,714
Advances on contracts	2,142	10,612
Other accruals and payables	43,164	40,105
Income taxes payable	535	1,464
Total current liabilities	148,210	179,177
Long-term debt, excluding current portion	72,038	87,924
Deferred income taxes	8,241	7,926
Liability for pension benefits	165,070	168,148
Due to Commonwealth of Australia	33,434	-
Other long-term liabilities	46,337	45,167
Commitments and contingencies		
Shareholders' equity:		
Capital stock, \$1 par value per share:		
Preferred stock, 200,000 shares authorized; none outstanding	-	-
Common stock, 50,000,000 shares authorized, 25,731,931 and 25,514,525 shares issued, respectively	25,732	25,515

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Additional paid-in capital	88,547	85,073
Retained earnings	297,410	283,789
Accumulated other comprehensive income (loss)	(111,332)	(119,658)
Less 48,182 and 43,907 shares of common stock, respectively,		
held in treasury, at cost	(532)	(448)
Total shareholders' equity	299,825	274,271
Total liabilities and shareholders' equity	\$ 773,155	\$ 762,613

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

KAMAN CORPORATION AND SUBSIDIARIES

(In thousands, except per share amounts) (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	October 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
Net sales	\$ 289,901	\$ 335,133	\$ 877,159	\$ 937,199
Cost of sales	213,209	246,260	644,301	685,463
Gross profit	76,692	88,873	232,858	251,736
Selling, general and administrative expenses	62,023	64,726	192,659	191,198
Goodwill impairment	-	-	-	7,810
Net (gain)/loss on sale of assets	3	(301)	(37)	(94)
Operating income from continuing operations	14,666	24,448	40,236	52,822
Interest expense, net	1,270	1,341	3,909	2,336
Other expense, net	621	1,977	1,235	1,906
Earnings from continuing operations				
before income taxes	12,775	21,130	35,092	48,580
Income tax expense	3,151	7,600	10,698	20,092
Net earnings from continuing operations	9,624	13,530	24,394	28,488
Gain on disposal of discontinued operations	-	-	-	506
Income tax expense	-	-	-	183
Net earnings from disposal of discontinued operations	-	-	-	323
Net earnings	\$ 9,624	\$ 13,530	\$ 24,394	\$ 28,811
Net earnings per share:				
Basic earnings per share				
from continuing operations	\$ 0.37	\$ 0.53	\$ 0.95	\$ 1.13
Basic earnings per share				
from disposal of discontinued operations	-	-	-	0.01
Basic earnings per share	\$ 0.37	\$ 0.53	\$ 0.95	\$ 1.14
Diluted earnings per share				
from continuing operations	\$ 0.37	\$ 0.53	\$ 0.95	\$ 1.12
Diluted earnings per share	-	-	-	0.01

from disposal of discontinued operations				
Diluted earnings per share	\$ 0.37	\$ 0.53	\$ 0.95	\$ 1.13
Average shares outstanding:				
Basic	25,672	25,405	25,615	25,321
Diluted	25,831	25,548	25,717	25,479
Dividends declared per share	\$ 0.14	\$ 0.14	\$ 0.42	\$ 0.42

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands) (Unaudited)

	For the Nine Months Ended	
	October 2, 2009	September 26, 2008
Cash flows from operating activities:		
Net earnings from continuing operations	\$ 24,394	\$ 28,488
Adjustments to reconcile net earnings from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	11,802	9,056
Provision for doubtful accounts	175	(23)
Net (gain) loss on sale of assets	(37)	(94)
Loss on change in Australian Payable, net of gain on derivative instruments	1,497	-
Goodwill impairment	-	7,810
Share-based compensation expense	2,406	1,971
Excess tax benefit from share-based compensation arrangements	(96)	(348)
Deferred income taxes	3,700	1,783
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable, net	(10,797)	(37,908)
Inventories	30,084	(24,906)
Income tax receivable	2,514	-
Other current assets	777	2,820
Accounts payable - trade	(10,610)	4,956
Accrued contract losses	(2,605)	926
Advances on contracts	61	-
Accrued expenses and payables	1,762	(11,115)
Income taxes payable	(1,118)	(10,894)
Pension liabilities	(4,971)	(8,722)
Other long-term liabilities	(438)	(2,279)
Cash provided by (used in) operating activities of continuing operations	48,500	(38,479)
Cash provided by (used in) operating activities of discontinued operations	-	(183)
Cash provided by (used in) operating activities	48,500	(38,662)
Cash flows from investing activities:		
Proceeds from sale of assets	51	122
Net proceeds from the sale of discontinued operations	-	447
Expenditures for property, plant & equipment	(8,869)	(9,995)
Acquisition of businesses including earn out adjustments, net of cash acquired	(576)	(100,168)
Other, net	(1,735)	(2,277)
Cash provided by (used in) investing activities	(11,129)	(111,871)
Cash flows from financing activities:		

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Net borrowings (repayments) under revolving credit agreements	(11,892)	88,263
Debt repayment	(3,750)	-
Net change in book overdraft	(1,637)	8,723
Proceeds from employee stock plan transactions	1,333	3,359
Dividends paid	(10,742)	(10,615)
Windfall tax benefit	96	348
Payment of debt issuance costs	(3,401)	-
Other	133	1,641
Cash provided by (used in) financing activities	(29,860)	91,719
Net increase (decrease) in cash and cash equivalents	7,511	(58,814)
Effect of exchange rate changes on cash and cash equivalents	948	(250)
Cash and cash equivalents at beginning of period	8,161	73,898
Cash and cash equivalents at end of period	\$ 16,620	\$ 14,834

See accompanying notes to the condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months and nine months ended October 2, 2009 and September 26, 2008

(Unaudited)

1. BASIS OF PRESENTATION

The December 31, 2008 condensed consolidated balance sheet amounts have been derived from the previously audited consolidated balance sheet of Kaman Corporation and subsidiaries. In the opinion of management, the balance of the condensed financial information reflects all adjustments necessary for a fair presentation of the company's financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature, unless otherwise disclosed in this report. Certain amounts in the prior period condensed consolidated financial statements have been reclassified to conform to current year presentation. The statements should be read in conjunction with the consolidated financial statements and notes included in the company's Form 10-K for the year ended December 31, 2008. The results of operations for the interim period presented are not necessarily indicative of trends or of results to be expected for the entire year.

During the second quarter of 2009, the Company implemented modifications to its system of reporting, resulting from changes to its internal organization over the preceding year, which changed its reportable segments to Industrial Distribution and Aerospace. The Company previously had five reportable business segments, Industrial Distribution and four Aerospace segments. See Note 16, Segment Information, for further discussion of the change in the Company's segments.

The company has a calendar year-end; however, its first three fiscal quarters follow a 13-week convention, with each quarter ending on a Friday. The third quarter for 2009 and 2008 ended on October 2, 2009 and September 26, 2008, respectively.

2. RECENT ACCOUNTING STANDARDS

In June 2009, the Financial Accounting Standards Board ("FASB") established the FASB Accounting Standards Codification TM (Codification) which became the source of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification became nonauthoritative. The Codification is effective for interim and annual reporting periods ending after September 15, 2009. The adoption of the Codification did not have an impact on the Company's consolidated financial statements.

In May 2009, the FASB issued guidance which established principles and requirements for recognition and disclosure of subsequent events. In particular, it sets forth the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. This guidance is to be applied to the accounting for and disclosure of subsequent events not addressed in other applicable GAAP and is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of these principles and requirements did not have an impact on the Company's consolidated financial statements.

In April 2009, the FASB issued guidance which amends the provisions for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in

business combinations. The guidance eliminated the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria for business combinations. The guidance is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The nature and magnitude of the specific effects of this guidance, if any, on the Company's future results of operations will depend upon the nature and magnitude of any contingencies associated with future acquisitions.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and nine months ended October 2, 2009 and September 26, 2008

(Unaudited)

3. ADDITIONAL CASH FLOW INFORMATION

Cash payments for interest were \$4.2 million and \$2.8 million for the nine months ended October 2, 2009, and September 26, 2008, respectively. Cash payments for income taxes, net of refunds, for the same periods were \$4.8 million and \$28.1 million, respectively.

On February 12, 2009, the Company completed the transfer of ownership of the Australian SH-2G(A) Super Seasprite Program inventory and equipment. As a result, the Company recorded a non-cash inventory acquisition of \$52.7 million, which represented the elimination of \$32.0 million of net unbilled receivables, the elimination of \$6.1 million of accrued contract losses, the recognition of the \$25.8 million minimum payment liability due to the Commonwealth of Australia and \$1.0 million of additional costs required to close out the program. See Note 7, Inventories, for further discussion.

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following (in thousands):

	October 2, 2009	December 31, 2008
Trade receivables	\$ 74,799	\$ 77,071
U.S. Government contracts:		
Billed	37,386	28,361
Costs and accrued profit – not billed	5,359	2,450
Commercial and other government contracts:		
Billed	28,623	26,845
Costs and accrued profit – not billed	1,442	41,292
Less allowance for doubtful accounts	(2,463)	(2,172)
Accounts receivable, net	\$ 145,146	\$ 173,847

Accounts receivable, net also includes amounts for matters such as contract changes, negotiated settlements and claims for unanticipated contract costs, which totaled \$0.9 million and \$2.9 million at October 2, 2009 and December 31, 2008, respectively. The Company records revenue associated with these matters only when recovery can be estimated reliably and realization is probable.

On February 12, 2009, the unbilled receivables associated with the SH-2G(A) program were \$40.6 million and the balance of amounts received as advances on this contract were \$8.6 million. These balances, totaling a net \$32.0 million, were eliminated in connection with the transfer of the Australian program inventory and equipment to the Company. See Note 7, Inventories, for further discussion.

5. FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market

participants at the measurement date.

The Company uses a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires us to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for markets that are not active or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and nine months ended October 2, 2009 and September 26, 2008

(Unaudited)

5. FAIR VALUE MEASUREMENTS (Continued)

The table below segregates all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine their fair value at the measurement date (in thousands):

	Total Carrying Value at October 2, 2009	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative instruments	\$ 5,895	\$ -	\$ 5,895	\$ -
Total Assets	\$ 5,895	\$ -	\$ 5,895	\$ -
Derivative instruments	\$ 610	\$ -	\$ 610	\$ -
Total Liabilities	\$ 610	\$ -	\$ 610	\$ -

The Company's derivative instruments are limited to foreign exchange contracts and interest rate swaps that are measured at fair value using observable market inputs such as forward rates and our counterparties' credit risks. Based on these inputs, the derivative instruments are classified within Level 2 of the valuation hierarchy and have been included in other current assets, other assets and other long-term liabilities on the Condensed Consolidated Balance Sheet at October 2, 2009. Based on the continued ability to trade and enter into forward contracts and interest rate swaps, we consider the markets for our fair value instruments to be active.

The Company evaluated the credit risk associated with the counterparties to these derivative instruments and determined, that as of October 2, 2009, such credit risks have not had an adverse impact on the fair value of these instruments.

6. DERIVATIVE FINANCIAL INSTRUMENTS

On January 1, 2009, the Company adopted guidance which amends and expands the disclosure requirements for derivative instruments and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for; and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows.

The Company is exposed to certain risks relating to its ongoing business operations, including market risks relating to fluctuations in foreign currency exchange rates and interest rates. Derivative financial instruments are recognized on the consolidated balance sheets as either assets or liabilities and are measured at fair value. Changes in the fair values of derivatives are recorded each period in earnings or accumulated other comprehensive income, depending on whether a derivative is effective as part of a hedged transaction. Gains and losses on derivative instruments reported in accumulated other comprehensive income are subsequently included in earnings in the periods in which earnings are affected by the hedged item. The Company does not use derivative instruments for speculative purposes.

Derivatives Designated as Cash Flow Hedges

The Company's Term Loan Credit Agreement ("Term Loan") contains floating rate obligations and is subject to interest rate fluctuations. During the first quarter of 2009, the Company entered into interest rate swap agreements for the purposes of hedging the eight quarterly variable-rate interest payments on its Term Loan due in 2010 and 2011. These interest rate swap agreements are designated as cash flow hedges and are intended to manage interest rate risk associated with the Company's variable-rate borrowings and minimize the impact of interest rate fluctuations on the Company's earnings and cash flows attributable to changes in LIBOR rates. The Company will include in earnings amounts previously included in accumulated other comprehensive income upon payment of its eight quarterly variable-rate interest payments.

The Company holds forward exchange contracts designed to hedge forecasted transactions denominated in foreign currencies and to minimize the impact of foreign currency fluctuations on the Company's earnings and cash flows. Some of these contracts are designated as cash flow hedges. The Company will include in earnings amounts previously included in accumulated other comprehensive income upon recognition of cost of sales related to the underlying transaction.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and nine months ended October 2, 2009 and September 26, 2008

(Unaudited)

6. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivatives Designated as Cash Flow Hedges - continued

The following table shows the fair value of derivative instruments designated as cash flow hedging instruments (in thousands):

	Balance Sheet Location	Fair Value		Notional Amount
		October 2, 2009	December 31, 2008	
Derivative Assets				
Foreign exchange contracts (a)	Other current assets	\$ -	\$ 212	933 Euro
Foreign exchange contracts (b)	Other assets	-	779	36,516 Australian Dollars
Total		\$ -	\$ 991	
Derivative Liabilities				
Interest rate swap contracts	Other liabilities	\$ 527	\$ -	\$ 40,000 - \$45,000
Total		\$ 527	\$ -	

(a) Forward exchange contracts dedesignated on July 4, 2009. See information below for fair value after dedesignation.

(b) Forward exchange contracts dedesignated on February 12, 2009. See information below for fair value after dedesignation.

The following table shows the gain or (loss) recognized in other comprehensive income for derivatives designated as cash flow hedges (in thousands):

	For the three months ended		For the nine months ended	
	October 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
Foreign exchange contracts (a)	\$ -	\$ -	\$ (37)	\$ -
Foreign exchange contracts (b)	-	-	(1,941)	-
Interest rate swap contracts	(360)	-	(527)	-
Total	\$ (360)	\$ -	\$ (2,505)	\$ -

(a) Forward exchange contract dedesignated on July 4, 2009. See information below for amounts recognized in the Condensed Consolidated Statement of Operations after dedesignation.

(b) Forward exchange contract dedesignated on February 12, 2009. See information below for amounts recognized in the Condensed Consolidated Statement of Operations after dedesignation.

During the three months and nine months ended October 2, 2009, the loss reclassified to income from other comprehensive income for derivative instruments designated as cash flow hedges was not material. No amounts were reclassified from other comprehensive income for the three months or nine months ended September 26, 2008. Over the next twelve months, the Company expects to reclassify income of approximately \$0.1 million from other comprehensive income.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and nine months ended October 2, 2009 and September 26, 2008

(Unaudited)

6. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivatives Designated as Cash Flow Hedges - continued

During the three months and nine months ended October 2, 2009, the gain recorded in other income for the ineffective portion of derivative instruments designated as cash flow hedges was not material. No such amounts were recorded for the three months or nine months ended September 26, 2008.

Derivatives Not Designated as Hedging Instruments

The following table shows the fair value of derivative instruments not designated as hedging instruments (in thousands):

	Balance Sheet Location	October 2, 2009	Fair Value December 31, 2008	Notional Amount
Derivative Assets				
Foreign exchange contracts	Other current assets	\$ 39	\$ -	\$ 275
Foreign exchange contracts	Other current assets	142	-	933 Euro
Foreign exchange contracts	Other assets	5,714	-	36,516 Australian Dollars
Total		\$ 5,895	\$ -	
Derivative Liabilities				
Foreign exchange contracts	Other current liabilities	\$ 83	\$ -	\$ 1,900
Total		\$ 83	\$ -	

On February 12, 2009, the Company dedesignated the forward contract it had entered into to hedge \$36.5 million (AUD) of its \$39.5 million (AUD) future minimum required payments to the Commonwealth of Australia. At October 2, 2009, the U.S. dollar value of the \$36.5 million (AUD) payable was \$31.6 million.

On July 4, 2009, the Company dedesignated the forward contract it had entered into to hedge future Euro obligations, due to a change in the timing of those payments.

The following table shows the location and amount of the gain or (loss) recognized on the Condensed Consolidated Statements of Operations for derivatives not designated as hedge instruments (in thousands):

Income Statement Location	For the three months ended		For the nine months ended	
	October 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
Derivative Assets				

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Foreign exchange contracts	Other expense, net	\$ (3)	\$ -	\$ 38	\$ -
Foreign exchange contracts	Other expense, net	42	-	42	-
Foreign exchange contracts	Other expense, net	2,035	-	6,607	-
Total		\$ 2,074	\$ -	\$ 6,687	\$ -
Derivative Liabilities					
Foreign exchange contracts	Other expense, net	\$ (85)	\$ -	\$ (85)	\$ -
Total		\$ (85)	\$ -	\$ (85)	\$ -

For the three months and nine months ended October 2, 2009, the Company recorded expense of \$2.5 million and \$7.8 million, respectively, to other expense related to the change in the value of the previously hedged \$36.5 million (AUD) payable.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and nine months ended October 2, 2009 and September 26, 2008

(Unaudited)

6. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Hedges of a Net Investment in Foreign Operations

The Company also maintains an approximately \$7.6 million Euro note, part of the revolving credit facility, which qualifies and has been designated as an effective hedge against the Company's investment in its German subsidiary (RWG). The U.S. dollar value of the Euro note at October 2, 2009, was \$11.1 million.

The following table shows the amount of the cumulative translation gain or (loss) recorded in other comprehensive income (in thousands):

Location	For the three months ended		For the nine months ended	
	October 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
Euro note	\$ 448	\$ (895)	\$ 656	\$ (116)
Total	\$ 448	\$ (895)	\$ 656	\$ (116)

The Company did not reclassify any amounts from other comprehensive income to earnings during the three or nine months ended October 2, 2009 or September 26, 2008. Over the next twelve months, the Company does not expect to reclassify any amounts from other comprehensive income.

7. INVENTORIES

Inventories consist of the following (in thousands):

	October 2, 2009	December 31, 2008
Merchandise for resale	\$ 88,882	\$ 106,757
Contracts and other work in process	172,099	130,299
Finished goods	19,089	18,761
Total	\$ 280,070	\$ 255,817

K-MAX® inventory of \$24.1 million and \$23.6 million as of October 2, 2009 and December 31, 2008, respectively, is included in other work in process and finished goods. Management believes that a significant portion of this K-MAX inventory will be sold after October 2, 2010, based upon the anticipation of supporting the fleet for the foreseeable future.

Inventories also include amounts for matters such as contract changes, negotiated settlements and claims for unanticipated contract costs, which totaled \$11.4 million and \$10.0 million at October 2, 2009 and December 31, 2008, respectively. The Company records revenue associated with these matters only when recovery can be estimated reliably and realization is probable.

On February 12, 2009, the Company completed the transfer of ownership of the Australian SH-2G(A) Super Seasprite Program inventory and equipment. As a result, the Company recorded \$52.7 million of contracts and other work in process inventory, which represented the following (in thousands):

Net unbilled accounts receivable*